

03

The mail division



Shanghai residents

Mail business description

Our mail division provides services for collecting, sorting, transporting and distributing domestic and international mail including letters, printed matter and parcels, as well as for distributing addressed direct mail and unaddressed mail. We also provide a range of data and document management services, including direct marketing and interactive services, and services for managing physical and electronic information flows.

Our substantial and long experience in the mail industry has helped us become one of the world's leading postal operators. It also helps us anticipate and respond to our changing market. In addition to providing world class mail service, we continue to combine our expertise with technology to develop new mail related data and document management services that meet specific consumer and business needs.

We have long viewed our core competence not as merely moving physical mail from one location to another, but as intelligently managing both physical and electronic flows of information. This skill is central to our objective, which is to maintain our margins through the implementation of cost flexibility measures and to maintain market share in the Netherlands, and to achieve growth through the provision of mail related data and document management services and international expansion.

Our mail business is highly regulated. See chapter 13. The Dutch Postal Act requires us to provide mandatory postal services and grants us the exclusive right to provide certain mandatory postal services referred to as reserved postal services. Mandatory postal services are subject to price regulation. In the Netherlands traditional mail services are declining due to the size of the Dutch domestic mail market, growing competition and the substitution of methods of delivering information for mail. In other countries we may be able to grow our mail services, although substitution is a relevant factor that negatively influences the total size of all domestic mail markets. At the moment the potential growth in other countries is also negatively affected by regulatory barriers to entry.

Key elements of our mail strategy, particularly in the Netherlands, are to increase cost flexibility and to achieve growth through developing mail related data and document management services and international expansion. Due to our strong position in the Dutch market, mail activities have provided us with a relatively stable source of revenue and income. Dutch and EU regulations prohibit us from using the revenues from reserved postal services to cross subsidise other activities.

Our mail division is organised in four business lines — Mail Netherlands, cross-border mail, European Mail Networks and data and document management - the latter of which operates under the brand name Cendris.

MAIL STRATEGY

Our ambition is to become the leading provider of business and consumer services for communication, transactions and delivery. We want our mail operations to be recognised as the industry benchmark for quality, efficiency and customer service, for producing the best returns in the industry and for making optimal use of new technologies and European postal market liberalisation.

Our mail strategy is based on three key elements:

- In Mail Netherlands, our focus is on the retention of our current margins by implementing cost flexibility measures. In addition, we continue to offer new services to customers that bring cost savings to their production chains.
- Internationally, we continue to expand along three tracks:
 - Through our European Mail Networks business line we offer addressed, unaddressed (i.e. the item of correspondence does not carry an individual address) and segmented distribution solutions for direct mail, brochures, leaflets and samples with an excellent price/quality ratio.
 - We continue to strengthen our European position through alliances with other organisations and postal operators.
 - Our 51%-owned subsidiary Spring, with Royal Mail Group plc and Singapore Post Pte Ltd., offers cross border mail services on a global scale.
- In addition to physical mail delivery, we continue to offer mail related data and document management services, such as direct and interactive marketing services and services for managing physical and electronic information flows.

In 2004, our mail division earned revenues of €3,900 million, a 0.4% decrease compared to the previous year. Mail accounted for 30.9% of our operating revenue, 71.0% of our operating income and 62.2% of our earnings from operations.

The following table sets forth operating revenues for each of the four business lines of our mail division for each of the years in the three-year period ended 31 December 2004:

Mail operating revenues

	Year ended at 31 December			
	2004		2003	2002 ¹
	US\$	€	€	€
Mail Netherlands	3,601	2,660	2,698	2,795
Cross-border mail	746	551	602	650
European Mail Networks	643	475	409	358
Data and document management	290	214	206	202
Total operating revenues	5,280	3,900	3,915	4,005

(in millions)

1. To reflect a more accurate elimination of intra-divisional transactions, figures of 2002 have been adjusted.

In November 2004, we made a conditional offer for a 25% stake in the incumbent national postal operator of Denmark. We understand from informal reports that we may learn further about the status of our offer in the near future. This would be a substantial acquisition for us.

As part of our cooperation with the China Post we are currently advising on the optimisation of the China Post transport, sorting and delivery operational structure. We are also investigating how we can capitalise on what we expect will be the strong development of the Chinese direct mail market.

MAIL DIVISION OVERVIEW BY BUSINESS LINE**Mail Netherlands**

Our Mail Netherlands business line collects, sorts, transports and delivers postal items, including letters, direct mail, printed matter and parcels within the Netherlands.

Mandatory postal services provided in the Netherlands are included within Mail Netherlands. Our subsidiary Royal TPG Post B.V. performs these mandatory postal services.

We are required to provide mandatory postal services. The domestic mandatory postal services mainly consist of the conveyance against payment of standard single rates of items of correspondence, including registered mail, and printed matter with a maximum weight of two kilogrammes and postal parcels with a maximum individual weight of 10 kilogrammes.

The provision of certain mandatory postal services is reserved exclusively to us. These domestic reserved postal services include the conveyance of letters weighing up to 100 grammes within the Netherlands, the placing of letter boxes alongside or on public roads and the issuance of postal stamps bearing the effigy of the monarch and/or the word "Nederland". The exclusive right does not extend to the conveyance of letters by a business to its own customers. Although not presently a widespread practice, large businesses may establish their own alternative distribution systems; this could adversely affect our mail division's revenue.

Certain services are not included in the mandatory services and we are not required to provide these, including the delivery of bulk printed matter such as advertising, magazines and newspapers, the delivery of bulk letters of correspondence with a weight above 100 grammes and unaddressed mail items. See chapter 13 - "Regulatory environment".

Tariffs for mandatory postal services must be transparent, non-discriminatory and uniform. However, we may grant volume discounts and negotiate specific prices and conditions with high volume users.

In 2004, approximately 28.3% of our mail operating revenue and approximately 8.7% of the Group's operating revenues (2003: 28.8% and 9.5%) were derived from reserved postal services in which we generally are not subject to competition. Notwithstanding that other companies are generally precluded by the postal concession granted to us by the Dutch State from providing conveyance of letter mail items that fall under reserved postal services, a small number of these letter mail items are carried by other providers. We are mindful of this practice but the effect on volumes is immaterial.

In 2004, through our Mail Netherlands business line, we delivered on average approximately 17 million addressed postal items per day, six days a week, to approximately 7.5 million households and businesses, and collected, sorted and delivered approximately 5.3 billion addressed items of mail (excluding inbound international items). The average number of working days in a year is an important driving factor of our mail volumes in that year.

The underlying decline of volumes adjusted for a comparable average number of working days per year was 3.2% in 2004. This implies an average annual decline of 1.6% since 2000. The decline was due in part to substitution by electronic media (see chapter 10 - "Risk factors"), accelerated by competition and reduced demand for direct mail as a result of the slow economy. We expect demand for these services to pick up when the economy recovers, although we expect a further decline in addressed mail over the next few years due to the increasing use of electronic mail, electronic bill presentment, reduced frequency of bank statements, competition and other factors. We estimate that the total Dutch addressed mail market volumes shrunk by around 2% in 2004.

Except for those services falling within reserved postal services, we face competition in the market in all areas of our mail division. Depending on the type of service, this competition arises from three primary sources:

- dedicated companies specialising in a particular type of postal service,

- specialised distribution units of large Dutch companies, and
- local or regional companies providing a range of postal services in a given geographic area.

In international postal services, other than reserved postal services, we face competition from other public postal operators and from a wide variety of private, internationally operating companies. Competition for these services is based primarily on price and quality of service. For some business lines, such as direct mail, the ability to offer data and documentation management services is also a competitive factor.

In the Netherlands the two main competitors, Sandd B.V. and Selekt Mail Nederland (the latter is owned by Deutsche Post World Net), in the addressed mail market have both built their own nationwide delivery capability based on a delivery frequency of twice a week. These two main competitors have delivered in 2004 around 200 million addressed postal items, which was around 4% of the total volume of the addressed mail market. We expect that these competitors will continue to grow. We will continue to pursue a margin policy and will continue to recommend to our customers our wide range of innovative services that are executed with excellent quality and reliability.

We anticipate that numerous business opportunities within the European Union will exist as a result of the further liberalisation of the postal sector. We believe we will be in a position to take advantage of these opportunities as a result of our efficiency, quality of service and experience. Due to the efficiency of our operations and customer orientation, we do not believe liberalisation in the Netherlands will significantly undermine our position in our traditional home market.

Our domestic mail system is presently organised around 11 main sorting centers. Six of these sorting centers are automated centers developed in recent years and are dedicated to letters and printed matter, three are dedicated to parcels, one to registered mail and one to international mail.

The domestic mail process begins with the deposit of mail by customers at post boxes, post offices and other designated deposit points and the pick-up of mail from customers. Through a fleet of 4,170 vehicles either owned or leased by us, mail is delivered to one of the main sorting centers. After sorting, mail is delivered to the main sorting center in the region of its ultimate destination, where the mail is sorted to the level of an individual round of a mailman, whereafter it is delivered to one of our 535 mail distribution depots. At the depot, the mail is manually arranged according to street and house number and door-to-door delivery is then effected by one of our 42,150 deliverers. In the coming years the process of manually arranging the mail according to street and house number will be taken over by sorting machines for small letter mail items, due to the actions formulated in our cost flexibility programme.

The domestic mail service we provide in our home market in the Netherlands consistently ranks among the most efficient and most competitively priced in Europe. Our customers enjoy more than the legally required 95% next-day delivery of items of correspondence at an overall price that—when corrected for inflation—has actually decreased by 17% since the privatisation of our business in 1989.

Our direct mail business comprises all activities involving distribution within domestic borders of addressed advertising mail and magazines (referred to in the industry as “direct mail”). The vast majority of the delivery of direct mail is not a reserved postal service and is therefore subject to competition. Initially, direct mail was predominantly used by mail-order companies, banks and insurance companies, but recently it is increasingly being used by all companies, regardless of size. Over the past years, up until 2002, we achieved growth in direct mail volumes due to economic growth in general, our innovative marketing approach and developments in the communications market. Beginning in 2002 and continuing in 2003 and 2004, a decline in direct marketing expenditures, due to slow economic growth and competition with other communications media in the advertising market, negatively affected our direct mail volumes. We believe that better targeted direct mailings, which have a more limited circulation, may impede future growth in direct mail volumes.

We have maintained our profitability because of a set of cost restructuring measures that are being implemented with great rigour. In 2001 we formulated our cost flexibility programme with works council discussions and initial pilots aiming at €320 million of savings on an annualised basis by 2012, compared to our cost levels in 2001. In 2004, we updated this cost flexibility programme with an overhead masterplan, and we now expect to achieve annualised cost savings by 2012 of approximately €370 million. At the end of 2004, an estimated aggregate cost saving of €145 million had been realised since 2002. The cost saving programme includes a restructuring of the marketing and sales channels and organisation, a restructuring of our operations and a restructuring of our overhead. The restructuring of the marketing and sales channels includes the optimisation of call centres, the retail network (post offices and service points) and the marketing and sales organisation. The restructuring of operations includes:

- the introduction of automated sequence sorting of small mail letter items,
- the implementation of a differentiated collective labour agreement for mail deliverers and other postal employees,
- the realisation of further optimised sorting processes,
- a restructuring of the mail depot structure,
- the separation of parcels from other mail delivery activities, and
- a restructuring of operational management structure, back office and support functions.

The restructuring of our overhead includes the optimisation of staff and support functions.

This redesign of our mail production chain has a particular emphasis on refining our distribution activities and distribution points throughout the Netherlands. In 2003, we started the installation of the first of several new sequence sorting machines and began using new software to improve automatic reading rates. By the end of 2004, 151 of these machines have been installed and installation of all the sorting machines is expected to be completed by the end of 2005.

In 2003, we also introduced the position of mail deliverer: part-time mail deliverer positions that provide the same high quality for customers at lower cost and with greater flexibility for the

individual and the company. The new mail deliverer positions are particularly attractive to individuals who want to work limited hours but still have the security of a permanent position and pension. In total approximately 5,300 new employees joined TPG Post as part-time deliverers in 2003 and 2004, and the number continues to grow. Through natural attrition, up to 9,000 full-time equivalent mailman positions will be replaced by 20,000 part-time mail deliverer positions by the year 2012. An additional 5,000 mailman positions will be eliminated. We believe that the cost flexibility programme will help us maintain the high quality our customers have come to expect, while also maintaining our margins. In 2004 a plan (as part of the existing masterplans) was announced to redesign the management structure of the operational activities of our collection, sorting, transport and distribution.

Included in Mail Netherlands are the results of our 50% interest in Postkantoren B.V., a joint venture with Postbank N.V., a subsidiary of ING Group N.V. Postkantoren operates a network of post offices that act as outlets for the services of both partners. This network of outlets, including franchises in the Netherlands, helps to fulfil our mandatory service obligation to provide a minimum number and regional density of postal service points, as well as certain other services. Due to the growing use of cash dispensers and the Internet for banking and postal services, we are restructuring our outlets to include fewer post offices but more sales outlets in shops. In 2005, through this joint venture, we intend to operate 800 post offices. Further, we expect we will operate 1,300 TPG Post Service Points, which will offer most postal products. In addition, we intend to operate 1,000 sales outlets in shops, which means that we will offer the market a total of 3,100 outlets in 2005. Postkantoren's core business is the distribution of financial and communication services and products (including postal services) to consumers and small businesses throughout the Netherlands. We use the post offices as an outlet for the collection of letters and parcels, the sale of stamps, the delivery of letters and parcels in the event that home delivery is not successful and express post. In addition, a network of more than 250 TPG Post Business Points will provide service to small and medium enterprises. On behalf of Postbank, Postkantoren's post offices offer counter banking, insurance and mortgage services.

Mail Netherlands also engages in activities related to philately and produces, issues and distributes Dutch stamps.

Cross-border mail

Our cross-border mail business line offers a range of services to individual and business customers. These services include handling exported postal items in the Dutch market and all postal items imported to or passing through the Netherlands from foreign public and private postal operators.

We provide two distinct cross-border mail services. The first of these is a mandatory postal service. For international inbound and outbound mail, based on the Dutch Postal Act and in accordance with the rules of the Universal Postal Union, mandatory postal services comprise conveyance against payment of both postal items at standard single rates and of bulk mail items at separately agreed rates with a maximum individual weight of two kilogrammes. International inbound and outbound postal parcels with a maximum individual weight of 20

kilogrammes are also included. We offer this service through a combination of our Mail Netherlands Network and foreign public and private postal operators. For the international transport of mail, we make use of a wide variety of air carriers and, within Europe, a subcontracted truck network. The provision of certain mandatory cross-border postal services is reserved exclusively to us. These cross-border inbound reserved postal services involve the conveyance of letters weighing up to 100 grammes within the Netherlands.

Cross-border mail services also include handling bulk mailings for a range of international customers, including publishers, mail-order companies, and financial service and direct mail companies. We conduct these activities through our 51%-owned subsidiary, Spring, of which Royal Mail Group and Singapore Post own the minority. In addition to using its three shareholders' delivery networks, systems, expertise and products, Spring uses delivery agreements with national and private postal operators.

The cross-border mail services market is highly competitive. Deregulation has prompted national and private postal operators to lower prices for business mail in order to compete and to enter foreign markets to position themselves for growth. Consolidation is resulting in fewer providers in the market. In most countries, the primary competitor is the traditional incumbent postal operator, but increasingly we see international postal operators such as Deutsche Post, Swiss Post International, Danish Post and La Poste extending their operations. Spring is the only true global alternative to these postal operators and competes in the market through a consultative and solutions-based approach to mail.

Spring's name and credibility in the marketplace is achieved by delivering excellent service to publishers, corporate mailers and direct marketers. In addition to its cross-border business mail services, Spring draws on the resources of its shareholders to deliver tailor-made solutions.

Spring aims to continue to grow its global customer base through sales teams managed from regional headquarters in Amsterdam, New York and Singapore.

The 23rd UPU congress held in Bucharest in September 2004 introduced a resolution governing the use of Extraterritorial Offices of Exchange (ETOE). The resolution has been accepted by a majority of the UPU countries. Countries applying the resolution do not allow ETOE on their territories and may use commercial prices (i.e. not based on terminal dues) for inbound mail volumes from ETOE. This means that routing options available to Spring and other operators (not being incumbents) are reduced.

European Mail Networks

Through our European Mail Networks business line, we are building a position to offer our customers a full service concept for mail, based upon high quality and a wide coverage in addressed and unaddressed delivery as well as a broad portfolio of services to reinforce our distribution activities. We have a presence now in Austria, Belgium, the Netherlands, the Czech Republic, Germany, Italy, Slovakia and the United Kingdom. Our services combine our expertise in data collection and direct marketing to offer customers an intelligent unaddressed service

that approaches addressed mail in its ability to target consumers. Unaddressed mail is delivered in preselected areas, but does not carry an individual address.

We strengthened our position in 2004 in all markets mainly through organic growth. In Italy we were successful in growing the mail related business and were awarded a seven-year contract in mailroom management. In the UK we managed to outperform the market growth of unaddressed mail, despite losing our Safeway contract.

We have made some small acquisitions. In Germany, we acquired the remaining 50% of the shares of Höfing and the business activities of Schneider, both unaddressed mail companies and integrated their activities into our unaddressed mail subsidiary Olaf Jepsen GmbH. This strengthened our position in the German unaddressed mail market.

In the German addressed market the revenue of our majority owned (71%) subsidiary EP Europost AG & Co doubled in 2004 as compared to 2003. We were successful in extending the number of licenses granted by the German regulator. Through these licenses EP Europost was able to sign the first contract for the delivery of small letter mail.

In 2002, the UK postal regulator announced it would extend the percentage of its bulk mail market open to competition from 10% to 40% effective 1 January 2003. TPG Post UK Limited's long-term license to provide bulk mail and certain other business mail services in the United Kingdom came into effect on 1 January 2003. In 2004 we began offering addressed distribution services in the United Kingdom using the TNT brand through our arrangement with Royal Mail Group giving us access to Royal Mail Group's local sorting and delivery network. Separately we gained access to Express Dairies' milkman delivery network. We are in contact with large companies, publishers, mailing houses and direct marketers who send mailings of more than 4,000 items and who need reliable, competitively priced services. In this way we believe we are able to strengthen our position in Europe's second-largest mail market and our existing unaddressed mail and data and document management services.

Data and document management

The services provided by our data and document management business line cover two main areas: direct marketing and document handling. In direct marketing, we offer direct and interactive marketing solutions such as data capture, database management, data mining and target systems for distribution. Our document handling services include distributed printing, mailroom management and workflow efficiency services.

After branding our data and document management business line in 2003 as 'Cendris', we started in 2004 to restructure the different parts of Cendris into one company. The execution of these plans will be finalised at the end of 2005. The goal of this restructuring is to enable Cendris to improve its market proposition in the data and document market and to optimise the internal processes.

In 2004, Cendris had no revenue growth due to the slow recovery of the economy both in the Netherlands and the rest of Europe. The focus of our existing client base is still on cost efficiency. We have found it difficult to attract new clients for this business.

In 2004, we acquired the remaining 40% of the shares in DIMAR. DIMAR is one of the leading providers of full-service direct marketing activities in the Czech Republic and Slovakia. We have owned the other 60% of DIMAR shares since 2002.

In 2004, we also acquired 75% of the shares of Seducom. The other 25% is owned by Mailprofs Employment BV, a 50% subsidiary of TPG Post BV. Seducom is a consultancy company in the Netherlands on dating and document management. Seducom supports companies and organisations in structuring and setting up their physical and virtual document flows.

Our call center formed a joint venture with BSC, the call centre of Essent, an energy company in the Netherlands. We own 51% of the shares of the joint venture, although the actual control of the joint venture is evenly divided between the partners. Therefore, 51% of the joint venture's revenue and result is consolidated in our figures. This joint venture created a substantial market position (2nd largest call centre company in the Dutch market) that allows us to bid on larger service requests.

Mail financial review

Mail operating revenues

	Year ended at 31 December					
	2004		% VARIANCE	2003	% VARIANCE	2002 ¹
	US\$	€		€		€
Mail Netherlands	3,601	2,660	(1.4)	2,698	(3.5)	2,795
Cross-border mail	746	551	(8.5)	602	(7.4)	650
European Mail Networks	643	475	16.1	409	14.2	358
Data and document management	290	214	3.9	206	2.0	202
Total operating revenues	5,280	3,900	(0.4)	3,915	(2.2)	4,005

(in millions, except percentages)

1. To reflect a more accurate elimination of intra-divisional transactions, the year 2002 has been adjusted.

Mail operating expenses

	Year ended at 31 December					
	2004		%	2003	%	2002
	US\$	€	VARIANCE	€	VARIANCE	€
Cost of materials	249	184	-	184	(5.2)	194
Work contracted out and other external expenses	1,277	943	(1.4)	956	-	956
Salaries and social security contributions	2,054	1,517	(2.5)	1,556	(3.4)	1,610
Depreciation, amortisation and impairments	219	162	(8.0)	176	28.5	137
Other operating expenses	354	261	(5.8)	277	(17.1)	334
Total operating expenses	4,153	3,067	(2.6)	3,149	(2.5)	3,231

(in millions, except percentages)

Mail operating income

	Year ended at 31 December					
	2004		%	2003	%	2002
	US\$	€	VARIANCE	€	VARIANCE	€
Earnings from operations	1,170	865	5.5	820	2.0	804
% of mail operating revenues	22.2%	22.2%		20.9%		20.1%
Amortisation and impairment of goodwill	(43)	(32)	40.7	(54)	(80.0)	(30)
Total operating income	1,127	833	8.7	766	(1.0)	774

(in millions, except percentages)

Mail productivity statistics

	Year ended at 31 December		
	2004	2003	2002
Addressed postal items delivered by Mail Netherlands ¹ (millions)	5,302	5,384	5,521
per Netherlands delivery address (items)	707	724	747
per Mail Netherlands FTE ² (thousands of items)	161	156	151
per Netherlands inhabitant (items)	325	331	341
per delivery day (millions)	17	18	18
Total operating revenues per FTE ² (thousands of €)	95	89	92
Average percentage of national mail sorted automatically (%)	82	82	80

1. Excluding international mail items per delivery day (millions).

2. This FTE (full-time employee equivalent) definition is based on a 37-hour work week.

Mail productivity statistics

	Year ended at 31 December		
	2004	2003	2002
Total cross-border mail volumes (thousands of kilogrammes)	90,239	94,467	90,691

The operating revenues of our mail division declined by 0.4% in 2004. In Mail Netherlands addressed mail volumes decreased 1.5%, and revenues declined 1.4%. On a comparable number of working days basis, the addressed Mail Netherlands volumes decline amounted to -3.2%. Revenues in our cross-border line of business declined 8.5%. Revenues in European Mail Networks showed 16.1% growth. Data and Document Management revenues increased 3.9%.

2004 showed no major improvements in the economic environment in the Netherlands or Europe in general. Customers continued their search for cost savings in the distribution area. Addressed Mail Netherlands volumes continued to decline as a result of growing competition, substitution and customers' suspending their mailings. The mail division focussed on quality and margin to defend our market position. At the European level we expanded in the addressed mail segment through our start-ups in the United Kingdom and Germany.

Our mail division's operating income increased by 8.7% in 2004, due primarily to Mail Netherlands and European Mail Networks. Our 2003 results were reduced by a €20 million goodwill impairment for our UK data and document management business. In 2004, earnings from operations increased by 5.5%. This increase was achieved primarily through continued progress in improving productivity and cost control while expanding our European Mail Networks and through small acquisitions. The improvement in earnings from operations was achieved despite the decline in addressed postal items delivered in the Netherlands.

Mail operating revenues

2004

In 2004, operating revenues from our mail division decreased by €15 million (-0.4%) compared to 2003. Organic operating revenues decreased by €5 million (-0.1%). Compared to last year, 2004 showed a €7 million (-0.2%) negative acquisition effect, due to a number of acquisitions effective in 2003 (including DocVision, Blitzpunkt GmbH, Fischer and Full Service) and the disposal of our 50% share in Geldnet B.V., an armoured cash transit business. Acquisitions effective in 2004 (including Höfnger, Prime Vision, Seducom and our joint venture with Essent, Cendris BSC Customer Contact) and the disposal of Denis Bodden, partly offset the negative acquisition effect. Foreign exchange effects accounted for a decline of €3 million (-0.1%).

Mail Netherlands operating revenues in 2004 decreased by €38 million (-1.4%) compared to 2003, of which €17 million can be attributed to a positive disposal effect of Geldnet in 2003. The organic volume decline in addressed mail items was offset by a higher average number of working days in 2004, a positive price-mix effect and a small increase in the volume of unaddressed mail items.

The continued underlying decline in addressed postal item volumes in 2004 (-3.2%) was due primarily to competition in the non-mandatory area, accompanied by reduced demand for direct mail as a result of cost-saving programmes initiated by some of our key customers due to the slow economy and the continued substitution of electronic media. We expect these trends to continue. This volume decline was partly offset by the higher

average number of working days in 2004, which had a 1.7% upward volume effect.

During 2004 competition remained fierce with the key international postal operators continuing to compete on price. Increasingly it seems that the big three remain the main competitive global threat, Deutsche Post, Swiss Post and La Poste. However, increasingly we are seeing quality of service and reliability becoming more and more important to our customers. Cross border mail operating revenues in 2004 decreased organically by €44 million (-7.4%) compared to 2003. The main driving factors for this decline were fierce international competition, our policy to reduce and terminate unprofitable contracts of volume in our Spring business and the renewed sales agency agreement with Royal Mail Group, which resulted in a lower fee. Foreign exchange effects caused a 1% decrease, primarily related to the appreciation of the euro against the US dollar and the Singapore dollar.

European Mail Networks operating revenues increased by 16.1% in 2004. All countries except Belgium, where our business is still negatively affected by local environmental taxes and competition, contributed to this growth; the UK and Italy showed double digit growth. In 2004 revenues of our start up in Germany more than doubled, while the first year of our start up in the United Kingdom showed significant growth. In Italy mail-related activities grew rapidly; addressed and unaddressed mail showed substantial growth as well.

Despite the continuing weak economic climate in the Netherlands, data and document management operating revenues increased by €8 million (3.9%). This increase was mainly attributable to the full year contribution of the 2003 acquisition DocVision of €7 million (3.4%) and the newly started joint venture with Essent, Cendris BSC Customer Contact, in the customer contact/call centre business.

2003

In 2003, operating revenues from our mail division decreased by €90 million (-2.2%) compared to the full year 2002. Organic operating revenues decreased by €81 million (-2.0%), while acquisitions effective in 2002 (including Cerilly and DIMAR) and in 2003 (including DocVision, Blitzpunkt GmbH, Fischer and Full Service) contributed positively. Including the effect of the disposal of our 50% share in Geldnet, the overall acquisition effect in 2003 amounted to €24 million (0.6%). Foreign exchange effects, driven by the decline of the US dollar, accounted for a decline of €33 million (-0.8%).

Mail Netherlands operating revenues in 2003 decreased by €97 million (-3.5%) compared to 2002. This organic decrease amounted to €86 million (-3.1%) and was primarily a result of the 2.5% decline in volume of addressed postal items delivered in the Netherlands in 2003. The remainder of the decrease, €11 million (-0.4%), was the result of the disposal of Geldnet. The continued and accelerating decline in addressed postal item volumes was due primarily to the continued substitution by electronic media, the continued growth of electronic banking resulting in a reduction in the frequency of bank statement mailings and reduced demand for direct mail as a result of cost-saving programmes initiated by some of our key customers due to the slow economy. As a result of these factors, the effect

of competition in the non-mandatory area started to show in the addressed mail volume development. In addition, the Mail Netherlands operating revenue in 2002 included €18 million in non-recurring revenue from the distribution of euro coins during the first half of that year.

Cross border mail operating revenues in 2003 decreased by €48 million (-7.4%) compared to 2002. This decrease was due primarily to negative foreign exchange effects of €22 million (-3.4%), primarily related to the US dollar, the UK pound, and the Singapore dollar, as well as by a mix of volume and price effects at Spring (our 51% owned subsidiary with Royal Mail Group plc and Singapore Post Pte Ltd.) and TPG branded businesses, leading to an organic revenue decline of €26 million (-4.0%). The main driving factors for this decline were the effects from the SARS virus during 2003, the global economic slowdown, fierce international competition and our policy to reduce and terminate unprofitable contracts.

European Mail Networks operating revenues increased by €51 million (14.2%). The organic operating revenues increased by €37 million (10.3%) and all countries except Belgium, where our business was negatively affected by local environmental taxes, contributed to this growth. The acquisitions of Full Service in Italy during the third quarter of 2003 and unaddressed mail companies Blitzpunkt GmbH and Fischer in Germany in the first half of the year accounted for an increase of €21 million (5.9%) in operating revenue. Foreign exchange rate effects, primarily for our UK business, partly offset this growth by €7 million (-2.0%).

Data and document management operating revenues in 2003 increased by €4 million (2.0%) compared to 2002. Organic operating revenues decreased by €6 million (-2.9%), as they were affected by a weak economic climate that has caused many of our customers to focus on reducing costs and that has also resulted in longer lead times for attracting new customers. The customer contact/call centre business in the Netherlands and Germany, however, contributed positively to organic growth. The acquisition of DocVision in the Netherlands early in 2003 contributed a €14 million (6.9%) increase in operating revenues. Foreign exchange rate effects, primarily related to the UK pound, partly offset this growth by €4 million (-2.0%).

Mail operating income

2004

The mail division's operating income in 2004 increased by €67 million (8.7%) compared to 2003. Amortisation and impairment of goodwill in 2004 decreased by €22 million (-40.7%) compared to 2003, due primarily to the lack of a 2004 equivalent to the third quarter €20 million goodwill impairment we recognised in 2003. Excluding amortisation and impairment of goodwill, the mail division's earnings from operations increased by €45 million (5.5%), mainly achieved in Mail Netherlands and European Mail Networks. The €45 million improvement, however, included a net positive one-off effect of €25 million, as described below. Adjusted for this one-off effect, operating income increased €20 million organically.

The improvement in organic earnings from operations in 2004 was primarily achieved through continued progress in improving productivity and cost control, mainly driven by our cost flexibility programme, which delivered savings of approximately €45 million

in 2004, adding up to €145 million in estimated accumulated savings from the start of the programme in 2002. As was the case in 2003, sick leave for the year was reduced by management actions and an incentive programme in accordance with the collective labour agreement (CLA).

Our operating expenses decreased by €82 million (-2.6%). The 2003 operating expenses included a €20 million one-off goodwill impairment. Excluding this effect, operating expenses decreased €62 million in 2004. Volume decreases in the business lines Mail Netherlands and Cross Border caused a decrease in work contracted out, partly offset by growth in European Mail. Adjusted for the €20 million impairment in 2003, depreciation and amortisation increased due to investments in property, plant and equipment. Costs of salaries including social and pension contributions showed a decrease due to savings in connection with our cost flexibility programme, lower pension costs and a net positive one-off effect from the settlement for future wage guarantees and various social measures, partly offset by a CLA-effect in Mail Netherlands.

The results from acquisitions and disposals made in 2003 and 2004 were neutral to the overall growth in earnings from operations.

In 2004 the Dutch Government announced an array of measures that, as a result of the uncertainty around the ultimate consequences of such measures if adopted by parliament, negatively affected natural employee attrition within the Mail division. To support this natural attrition we launched a number of measures in September 2004 to stimulate various categories of employees to leave the company voluntarily.

One such measure, called "Personal Seniors Arrangement", targeted employees within certain functions that either will be made redundant or will be restructured as part of our cost flexibility programme. At the end of 2004, 1,067 employees of the targeted population of approximately 1,450 employees have accepted an offer to leave the Company one, two or three years before the original early retirement entitlement date. We have irrevocably transferred our obligation for future benefit payments to these employees to an insurance company in exchange for a settlement payment of €142 million. Net termination costs in connection with the Personal Seniors Arrangement amounted to €57 million in 2004, taking into account €103 million of releases from the existing provision for pension liabilities in our balance sheet. The realisation of a pro rata part of the unrecognised losses resulted in a loss of €30 million. The employees' acceptance of the offer will contribute approximately €19 million to the realisation of the cost flexibility programme. The realisation of this amount is determined by the actual date of leave of the employees and will not be fully realised in 2005.

Various other cost-reduction measures in 2004 included bonus payments for employees that elected to leave the company and compensation for training and education as a stimulus for such a decision. The related costs totalled €12 million, and other restructuring costs were €10 million.

Effective 1 January 2001 we transferred a liability for future wage guarantees to an insurance company, after approval of our labour unions and works council. This transfer settled our obligation

for future wage guarantees that had resulted from prior year's restructuring measures as a result of which the job grading for various functions had declined. Following the outcome of an unfavourable court decision in October 2004 with regard to the timing of the deductibility of the settlement amount paid for tax purposes, we have decided to unwind the contract with the insurance company in accordance with its terms. Of the original amount settled of €181 million we are entitled to a €134 million refund, which we have accounted for as a reduction in our salary costs in 2004 and the proceeds of which are used in 2004 to offset our liability as a result of the Personal Seniors Arrangement discussed above. As a result of the unwinding of the contract we estimate that from 2004 onwards our total salary cost will be negatively affected by an amount of €18 million. This amount over time will gradually decrease as the population entitled for such compensation will leave the Company or be promoted to other functions.

In 2004, overall mail earnings from operations as a percentage of mail operating revenues increased to 22.2%, compared to 20.9% in the prior year.

2003

The mail division's operating income in 2003 decreased by €8 million (-1.0%) compared to 2002. Amortisation and impairment of goodwill in 2003 increased by €24 million (86.4%) compared to 2002, due primarily to the third quarter €20 million goodwill impairment related to our UK data and document management business. The under-performance and change of management at Lason UK Ltd., a provider of integrated outsourcing services for data and document management, triggered a goodwill impairment test. Due to the collapse of the microfiche business an impairment of €20 million was booked. Excluding amortisation and impairment of goodwill, the mail division's earnings from operations in 2003 increased by €16 million (2.0%). The organic earnings from operations improved by €9 million (1.1%), while foreign exchange effects offset this growth by €1 million (-0.1%). The improvement in organic earnings from operations in 2003 was primarily achieved through continued progress in improving productivity and cost control, mainly driven by our cost flexibility programme, which delivered savings of approximately €74 million in 2003. Sick leave was reduced by management actions and an incentivised programme in accordance with the collective labour agreement. Numerous cost control initiatives, none of which was individually significant, collectively contributed to the enhanced performance. This improvement was offset by an additional €29 million in pension costs that were recognised in 2003, compared to the prior year. The results from acquisitions and disposals made in 2002 and 2003 contributed €8 million (1.0%) to the overall growth in earnings from operations.

In 2003, overall earnings from operations as a percentage of mail operating revenues increased to 20.9% compared to 20.1% in the prior year.